

AMENDED IN ASSEMBLY AUGUST 18, 2014

AMENDED IN ASSEMBLY JULY 2, 2014

AMENDED IN ASSEMBLY JUNE 10, 2014

AMENDED IN SENATE JANUARY 27, 2014

AMENDED IN SENATE JANUARY 6, 2014

AMENDED IN SENATE APRIL 23, 2013

## SENATE BILL

**No. 593**

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**Introduced by Senator Lieu**

February 22, 2013

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An act to add and repeal Title 15.5 (commencing with Section 97000) of the Government Code, relating to social impact partnerships.

### LEGISLATIVE COUNSEL'S DIGEST

SB 593, as amended, Lieu. Social impact partnerships: pilot program.

Existing law establishes the Office of Planning and Research in the Governor's office and sets forth its powers and duties as the comprehensive state planning agency, including, among other things, to evaluate plans and programs of departments and agencies of state government.

This bill would state findings and declarations of the Legislature regarding the social problems currently facing the state and the function of *social innovation funding, pay-for-success contracts, and social impact partnerships*. The bill would authorize the ~~Governor~~ Governor, *or his or her designee*, to enter into at least 3 pay-for-success social impact partnerships, as defined, *or other model of social innovation financing*, before December 31, 2019, to address policies or programs

not currently funded by the state, to address a particular component of a state program in order to improve outcomes or lower state costs, to reduce recidivism, to reduce child abuse and neglect, or to assist at-risk and foster children, provided that the social impact partnership does not cause the displacement of any state employee and the contractual agreement contains specified provisions. The bill would require a pay-for-success contract for a social impact partnership to be submitted to the Legislature as part of the Governor's proposed budget, and any funding necessary for that fiscal year to be included in the Governor's proposed budget for the state agency that would administer or oversee the contract. The bill would require the Treasurer to separately account for moneys approved by the Legislature and the Governor to use for payment for these contracts, upon appropriation by the Legislature.

This bill would repeal these provisions on January 1, 2020.

Vote: majority. Appropriation: no. Fiscal committee: yes.  
State-mandated local program: no.

*The people of the State of California do enact as follows:*

- 1 SECTION 1. The Legislature finds and declares all of the
- 2 following:
- 3 (a) Over six million people are currently living in poverty in
- 4 California, and 22 percent are children. One in five children in
- 5 California lives in poverty and nearly one-half of children in
- 6 California either live in poverty or perilously close to it.
- 7 (b) The recidivism rates in California are among the highest in
- 8 the nation. According to a 2012 report by the Department of
- 9 Corrections and Rehabilitation, just over 65 percent of those
- 10 released from California's prison system return within three years.
- 11 (c) Approximately 55,000 children are in the foster care system
- 12 in California, yet, according to the Pew Charitable Trusts, by 19
- 13 years of age only 57 percent of emancipated foster youth have
- 14 received high school diplomas or general education development
- 15 (GED). Over 70 percent of all state prison inmates have spent time
- 16 in the foster care system.
- 17 (d) Despite current efforts to address these challenges, there are
- 18 simply not sufficient resources available through traditional funding
- 19 mechanisms. Innovative approaches that can be shown to achieve
- 20 defined goals should be pursued.

1 ~~(e) Social impact partnerships are essentially pay-for-success~~  
2 ~~contracts that can be used for social programs administered by~~  
3 ~~nongovernmental organizations whereby governmental agencies~~  
4 ~~pay only for successful programs with real, measurable outcomes~~  
5 ~~after the results have been achieved.~~

6 *(e) Research and experience at the federal level and in other*  
7 *states show that the public can benefit from the use of social*  
8 *innovation financing to establish partnerships between*  
9 *governmental agencies, private investors, and service providers*  
10 *using pay-for-success contracts to achieve measurable social*  
11 *benefits.*

12 *(f) Social innovation financing and the use of pay-for-success*  
13 *contracting can be an especially effective tool for addressing social*  
14 *and community development challenges where private sector*  
15 *innovations are needed and multiple approaches are appropriate.*

16 ~~(f)~~

17 *(g) This act will authorize the state to contract with*  
18 *nongovernmental organizations to provide a service to a targeted*  
19 *population over a specified period of time. If the results of the*  
20 *services provided meet predetermined program goals, the state*  
21 *will repay the nongovernmental organization for the services*  
22 *rendered plus an agreed upon rate of return. If the social program*  
23 *does not meet the targets, the government pays nothing.*

24 ~~(g)~~

25 *(h) This act will authorize the state to enter into at least three*  
26 *pay-for-success contracts to meet state goals to reduce recidivism*  
27 *and improve outcomes in the child welfare system. These contracts*  
28 *are in addition to any contract entered into in connection with the*  
29 *Social Innovation Financing Program authorized by Title 15.8*  
30 *(commencing with Section 97008) of the Government Code.*

31 ~~(h)~~

32 *(i) The social impact partnership model was first used in the*  
33 *United Kingdom in 2010 and has since been adopted in New York.*  
34 *Twelve other states are developing social impact partnerships,*  
35 *including Illinois, Michigan, New Jersey, Ohio, and Washington.*

36 ~~(i)~~

37 *(j) In a time of limited public funds and a decrease in*  
38 *philanthropy, the social impact partnership model is being used*  
39 *across the nation to address social problems, to reduce recidivism,*

1 to reduce chronic homelessness, and to fund early childhood  
2 intervention and prevention services and job training programs.

3 SEC. 2. Title 15.5 (commencing with Section 97000) is added  
4 to the Government Code, to read:

5  
6 TITLE 15.5. SOCIAL IMPACT PARTNERSHIPS PILOT  
7 PROGRAM

8  
9 CHAPTER 1. GENERAL

10  
11 97000. This ~~act~~ *title* shall be known, and may be cited, as the  
12 Social Impact ~~Partnership~~ *Partnerships Pilot* Program.

13 97000.5. (a) For purposes of this title, the following definitions  
14 shall apply:

15 (1) “Pay-for-success contract” means a type of contract that the  
16 state may enter into with a service provider that sets performance  
17 and quality standards that must be met in order for the service  
18 provider to be paid. Pay-for-success contracts are often used to  
19 address a defined demographic group’s particular needs for which  
20 payment will be made after predetermined measurable results have  
21 been achieved.

22 (2) “Social impact partnership” means a contractual relationship  
23 between a public entity and one or more private entities for the  
24 purpose of addressing a social, economic, or educational challenge.  
25 The context, authorities, and responsibilities of a social impact  
26 partnership are laid out in a pay-for-success contract.

27 (3) “*Social innovation financing*” means an investment  
28 arrangement using private funding to finance a social program  
29 administered by a nonprofit organization or a for-profit service  
30 provider on behalf of a government agency pursuant to a  
31 pay-for-success contract, social innovation bond, or other model  
32 that results in the state paying for performance.

33 (b) Pay-for-success ~~contracts~~ *contracts*, excluding those  
34 contracts entered into pursuant to Title 15.8 (commencing with  
35 Section 97008), may be entered into, subject to the conditions and  
36 requirements of this ~~chapter~~ *title*, for any of the following:

37 (1) To address policies or programs that may be appropriate to  
38 meet a defined demographic group’s particular need, but that are  
39 not currently funded by the state.

1 (2) To address a particular component of a state program in  
2 order to improve outcomes or lower state costs.

3 (3) To improve outcomes in a program designed to reduce  
4 recidivism in the population of formerly incarcerated individuals.

5 (4) To reduce the incidence of child abuse and neglect through  
6 prevention and treatment, to improve the stability of at-risk and  
7 foster children through behavioral health and other  
8 trauma-informed care.

9 (c) A social impact partnership *entered into pursuant to this*  
10 *title* shall not be used in lieu of funding or administering an existing  
11 state program nor cause the displacement of any state employee.

12 (d) ~~The Governor~~ Governor, or his or her designee, is authorized  
13 to enter into a social impact partnership, subject to the conditions  
14 and requirements of this chapter, for the purposes set forth in  
15 subdivision (b) if the pay-for-success contract contains all of the  
16 following:

17 (1) A requirement that payments for services be conditioned  
18 upon the achievement of specific outcomes based on defined  
19 baseline metrics, performance measures, and quality standards.

20 (2) A requirement that an independent evaluator be used to  
21 determine whether the performance outcomes and quality standards  
22 have been achieved.

23 (3) Specifications for how success will be measured and  
24 payments for services are earned.

25 (4) A calculation for the amount of, and the timing of, payments  
26 that will be earned by the service provider during each year of the  
27 agreement, if performance outcomes are achieved as determined  
28 by the independent evaluator.

29 (5) If applicable, pursuant to paragraph (2) of subdivision (b),  
30 a statement that the contract will result in significant performance  
31 improvements or budgetary savings if the performance outcomes  
32 are achieved.

33 (6) *Safeguards to protect the well-being of the population being*  
34 *served including, but not limited to, privacy, health, and safety.*

35 (e) If the Governor exercises the authority set forth in  
36 subdivision (d), he or she shall enter into at least three  
37 pay-for-success contracts for social impact partnerships *or other*  
38 *model of social innovation financing* before December 31, 2019.

39 (f) Before finalizing the terms and conditions of the  
40 pay-for-success contract, the state agency that is assigned to

1 administer or oversee the pay-for-success contract *authorized by*  
2 *this title* shall undertake an assessment to determine appropriate  
3 baseline metrics, performance standards, and quality measures to  
4 be included in the pay-for-success contract. At the conclusion of  
5 the pay-for-success contract, the state agency shall provide the  
6 Joint Legislative Budget Committee, the Senate Committee on  
7 Business, Professions and Economic Development, and the  
8 Assembly Committee on Jobs, Economic Development, and the  
9 Economy, with an assessment of how effective the social impact  
10 partnership model was in meeting the particular needs of the  
11 targeted demographic group and make recommendations on how  
12 the structure or process of undertaking a social impact partnership  
13 through pay-for-success contracts may be improved.

14 97001. (a) A pay-for-success contract for a social impact  
15 partnership shall be submitted to the Legislature as part of the  
16 Governor's proposed budget, including any statutory changes that  
17 may be necessary for the pay-for-success contract to move forward.  
18 Any funding of the contract for that fiscal year shall be included  
19 in the Governor's proposed budget for the state agency that would  
20 administer or oversee the contract. A pay-for-success contract shall  
21 not be entered into without funding approval by the Legislature.  
22 *This subdivision shall not apply to any contract entered into*  
23 *pursuant to Title 15.8 (commencing with Section 97008).*

24 (b) The Treasurer shall separately account for moneys within  
25 the State Treasury for pay-for-success contracts that have been  
26 approved by the Legislature and the Governor, and hold those  
27 moneys, until the outcome of the social impact partnership has  
28 been evaluated, pursuant to subdivision (g) of Section 97000.5,  
29 and the moneys appropriated by the Legislature for payment of  
30 the pay-for-success contract.

31 97002. (a) *This title shall not apply to any contract entered*  
32 *into pursuant to Title 15.8 (commencing with Section 97008).*

33 (b) *This title does not create a statutory entitlement to services*  
34 *or any contractual obligation on the part of the state.*

35 ~~97002.~~

36 97003. This title shall be repealed on January 1, 2020.